



# ESTIMATION OF INTRINSIC VALUE OF EQUITY SHARE USING VALUE ANCHOR

## (A CASE STUDY OF HINDUSTAN UNILIVER LIMITED)

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### ABSTRACT

The concept of value is like beauty. Just as it is said that "beauty lies in the eyes of the beholder. Value is determined by a person who seeks or perceives value in a thing. In analyzing a company, it is not sufficient just to study its past performance. The environment- economic, legal, industrial, social and so on must be understood. Business valuation is a fascinating topic, as it requires understanding of financial analysis techniques in order to estimate value and for acquisition. It also requires good negotiating and tactical skill. Business valuation is important in determining the present value status as well as the future prospects of a company. Fundamental analysis is perhaps, the most popular method used by investment analysts for assessing value of a stock. The earnings potential and riskiness of a firm are contributing to the prospects of the industry to which it belongs.

The objective of the Study is to study the estimation of intrinsic value of equity share using Value Anchor (A Case Study of Hindustan Uniliver Limited). The study is based on secondary data and discussions with personnel concerned. The secondary data consists of the annual reports of HUL covering the last five years from 2011-12 to 2015-16. Various other reports like magazines, journals, published books and websites are also referred to for the present study. Tools applied for data analysis in the present study are financial tools like Dividend per share, Return on Equity, Retention Ratio, Earnings per share, Cost of Equity, Constant Growth Model, Dividend payout ratio, and statistical tools such as compound Annual Growth Rate (CAGR) and Simple Average. Detailed analysis could not be carried out for the research work because of the limited time span. Since financial matters are sensitive in nature, same could not be acquired easily.

The conclusion is to know intrinsic value of Hindustan Uniliver Limited. The stock is undervalued if the market price of a share is lesser than its intrinsic value. It is preferable to buy it (at cheaper rate) to make profit. On the other hand, the stock is overvalued, if market price of a share is higher than its intrinsic value preferring to sell it now to prevent from losing value subsequently.

**KEYWORDS:** Dividend per share, Return on Equity, Retention Ratio, Earnings per Share, Cost of Equity, Price to Earnings Ratio (P/E), Projected Earnings Growth through Sustainable Growth Rate, Constant Dividend Growth Model and Dividend Payout Ratio.

### Introduction:

The concept of value is like beauty. Just as it is said that "beauty lies in the eyes of the beholder. Value is determined by a person who seeks or perceives value in a thing. In analyzing a company, it is not sufficient just to study its past performance. The environment- economic, legal, industrial, social and so on must be understood. Business valuation is a fascinating topic, as it requires understanding of financial analysis techniques in order to estimate value and for acquisition. It also requires good negotiating and tactical skill. Business valuation is important in determining the present value status as well as the future prospects of a company. Fundamental analysis is perhaps, the most popular method used by investment analysts for assessing value of a stock. The earnings potential and riskiness of a firm are contributing to the prospects of the industry to which it belongs.

The financial information that is used will include a company's financial reports and non financial information such as estimates of growth of demand for the products and expected discount rate, industry comparisons and economic wide changes, changes in government policies etc.,

### Statement of the problem:

Majority of them burnt their fingers by going through technical and market sentiments. Estimation of value of a stock is a complex task since it needs requisite technical skill with adequate knowledge. Researchers have restricted to the study of financials only and not on other factors. Hence, an attempt is made to study on "Estimation of intrinsic value of Equity Share using Value Anchor (A Case Study of Hindustan Uniliver Limited)."

### Objective of the Study:

1. To estimate intrinsic value of stock of Hindustan Uniliver Limited (HUL) using Value Anchor

### Research Methodology:

Research Design: In view of the objective of the study listed above, exploratory research design has been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

- **Sources of data:** The study is based on secondary data and discussions with personnel concerned. The secondary data consists of the annual reports of HUL covering the last five years. Various other reports like magazines, journals, published books and websites are also referred to for the present study.

• **Tools of analysis:** The data collected for the study is analysed logically and meaningfully to arrive at meaningful conclusions. The following are the tools applied for data analysis in the present study.

• **Financial tools:** Dividend per share, Return on Equity, Retention Ratio, Earnings per Share, Cost of Equity, Price to Earnings Ratio (P/E), Projected Earnings Growth through Sustainable Growth Rate, Constant Dividend Growth Model and Dividend Payout Ratio.

• **Statistical Tools:** Compound Annual Growth Rate (CAGR) and Simple Average.

**Scope and period of the study:** The scope of the study is defined in terms of concepts adopted and period under focus. Firstly, the primary concepts of Return on equity and value of the share are used for measuring profitability and market price of the share is to arrive at various objective of the study. Secondly, the study is based on the annual reports of the company for a period of five years from 2011-12 to 2015-16. The reasons for restricting to this small period are the time constraint.

**Limitations of the Study:** The information is used primarily from historical annual reports available to the public and the same does not indicate the current situation of the company. Detailed analysis could not be carried out for the research work because of the limited time span. Since financial matters are sensitive in nature, same could not be acquired easily.

### Findings of the Study:

1.  $Ke = (Div_0 / MP_0) + g = 22.678922$
2. Average payout Ratio = 79.652
3. Expected Growth Rate in Dividend (CAGR) = 20.85
4. P/E Ratio = 43.5513
5. Expected EPS =  $EPS_0 (1+g) = 20.9331$
6. Value Anchor =  $P/E \text{ Ratio} * \text{Expected EPS} = 43.5513 * 20.9331 = 911.6637$
7. Value Range: +10%/-10% of Value Anchor

Market price	Decision
110% of Value Anchor(911.6637)= 1002.8354	Sell
Value Anchor	Hold
90% of Value Anchor(911.6637)= 820.50168	Buy

**Conclusion:**

The conclusion is to know intrinsic value of Hindustan Uniliver Limited. The stock is undervalued if the market price of a share is lesser than its intrinsic value. It is preferable to buy it (at cheaper rate) to make profit. On the other hand, the stock is overvalued, if market price of a share is higher than its intrinsic value preferring to sell it now to prevent from losing value subsequently.

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**Appendix -1**  
**Value Anchor of HUL**

Parameters of calculating Value Anchor	Year					CAGR (%)	Average
	12-Mar	13-Mar	14-Mar	15-Mar	Mar 16		
Basic EPS (Rs.)	12.46	17.56	17.88	19.95	18.87	10.9337	17.344
Expected EPS= EPS0 (1+g)= EPS2016*Expected Growth Rate in EPS)						20.9332	
Dividend / Share(Rs.)	7.5	18.5	13	15	16	20.8550	14
Expected DPS = (Div0 (1+g) for Mar.2017						17.2086	
MPS/P0						943.5	
Ke= (Div1/Po) +g (%)						22.6789	
Average payout Ratio	60.22	105.35	72.69	75.2	84.8	0.0893	79.652
P/E Ratio= Average payout Ratio/ (Ke- Expected Growth Rate in Dividend)						43.5513	
Value Anchor (P1)= P/E Ratio* Expected EPS						911.6637	
Value Range= +10% /-10% of Value Anchor:							
Decision							
110% of Value Anchor = (911.6637*1.10)	1002.8354					Sell	
Value Anchor	911.6637					Hold	
90% of Value Anchor = (911.6637*0.90)	820.50168					Buy	